

INDUSTRIAL INSURANCE  
RCW 51.16.060

Tax Base

The majority of employers covered under the State Fund pay premiums (taxes) based on the number of hours worked by their employees. This is in contrast to all other states which use payroll as the premium base for their workers' compensation insurance programs.

Tax Rate

The Department of Labor & Industries determines base rates by fund and by risk class per RCW 51.16.035. All firms covered under the State Fund are experience rated for accident and medical aid premiums. An experience factor is computed for each firm that adjusts the base premium rates. The experience factor is multiplied by the base rates of the accident and medical aid rates. The supplemental pension fund rate is not experience rated; all firms pay the same rate into this fund. The sum of these rates per risk classification equals the composite premium rate.

The accident fund premium, paid 100 percent by the employer, supports the compensation portion of the benefits paid to future injured workers. The medical aid premium is paid by the employer, but the employer has the option of charging the employee up to one-half of the amount pursuant to RCW 51.16.140. This funds medical and vocational counselor services to future injured workers. The supplemental pension fund premium is also paid by the employer, but the employer may charge up to one-half of the amount to the employee. This represents a uniform assessment providing cost of living increases for wage replacement benefits to workers injured in the past.

The classification base rates that apply to particular firms vary widely, based on the risk associated with their business activity. To illustrate the range of possible rates, for calendar year 2001 the composite base rate ranged from \$0.0487 per hour for volunteers to \$8.10 per hour for crop dusting. One of the larger classifications is for clerical activities; their rate is 10.0 cents per hour. The logging industry has relatively high rates; traditional logging firms currently pay \$6.17 per hour for each employee. The actual premium rates paid by a particular firm may be higher or lower than the base rates.

Levied by

State

## Administration

The Department of Labor and Industries administers Washington State's Industrial Insurance program. Employers file a quarterly report indicating their gross payroll, total worker hours per risk classification, and the appropriate composite rate per risk class as assigned by the Department. The composite rates are multiplied by the worker-hours to determine the amount of the firm's industrial insurance premium. The report and the premium payment are due by the end of the month following the close of the calendar quarter.

## Distribution of Receipts

All industrial insurance premiums are collected, invested and eventually paid as benefits or administrative expenses by the Washington State Fund, which is managed by the Department. It provides industrial insurance benefits to employees who are injured on the job. Compensation includes medical expenses, time-loss payments for persons who are unable to work because of an industrial accident, vocational rehabilitation and retraining if the injured worker is unable to continue in the same occupation, and pension benefits for persons who are permanently and totally disabled as a result of the accident.

## Recent Collections (\$000)

<u>Fiscal Year</u>	<u>Total Premiums Paid*</u>	<u>% Change</u>
2001	\$1,081,776	(0.8)%
2000	1,089,958	3.2
1999	1,056,076	(1.3)
1998	1,069,926	29.0
1997	829,646	(24.6)
1996	1,099,916	(0.9)
1995	1,110,393	5.9
1994	1,048,725	8.6
1993	965,227	7.6
1992	896,861	5.4

\*cash basis.

## Exemptions

All employers are required to provide industrial insurance coverage. Certain businesses and government entities may qualify for the right to self-insure, if they have substantial financial resources and effective accident prevention programs. As of September, 2001, 338 firms self-insure; these represent about 30 percent of the state's employees.

Coverage is not required for the following occupations or activities:

- domestic service (unless two or more persons are regularly employed for at least 40 hours per week);
- repair, maintenance, landscaping and similar work at an employer's private home;
- persons working for aid and sustenance only for religious/charitable organizations;
- minors employed by parents to work on a family farm;
- jockeys who work at licensed horse racing meets;
- corporate officers who are directors and shareholders of the firm;
- sole proprietors and partners, except persons in the building construction industry may be required to purchase coverage, unless they request exclusion;
- employees covered by other governmental compensation programs (e.g. federal employees, seamen, longshoremen, and police and firemen);
- native American tribes;
- certain musicians and entertainers;
- newspaper carriers;
- insurance agents; and
- certain cosmetologists.

### History

Worker's compensation insurance in Washington State is known as industrial insurance. The industrial insurance program was originally established in 1911. By statute, the Department of Labor and Industries is the only insuring entity within the state for the coverage under Title 51 RCW; no private insurance companies are allowed to provide insurance coverage under these laws. In 1972, self-insurance was allowed for firms that have substantial financial resources and effective accident prevention programs. The other firms are covered under the State Fund.

### Discussion/Major Issues

The industrial insurance system provides protection to employers for liability associated with on-the-job injury to their employees. This service is a substantial benefit for employers, since the cost of the program is likely lower than would be the case if the equivalent protection were to be purchased from private insurers. Further, the insurance is provided on a "no-fault" basis and all employers are guaranteed coverage.

The premium payments can represent a major financial obligation of employers doing business in Washington. In comparison with the principal state business tax, the total premium payments amount to more than one-half of the total B&O tax liability. However, industrial insurance premium payments are not considered as one of the general taxes levied by the state, since its receipts are solely dedicated to funding compensation for injured workers. Nonetheless, the premium payments can be significant for certain employers, particularly those in high-risk classifications.

According to a study of 2000 worker's compensation insurance premium rates by the state of Oregon, rates in Washington ranked 38th from the highest among all states. A 1998 Joint Legislative Audit Review Committee finding was that Washington State is above the 75<sup>th</sup> percentile among all states in benefits paid and below the 25<sup>th</sup> percentile in costs charged.